

BSE SENSEX 57,892
S&P CNX 17,305

Estimate change

TP change

Rating change



Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	1004.8 / 13.4
52-Week Range (INR)	204 / 123
1, 6, 12 Rel. Per (%)	5/13/9
12M Avg Val (INR M)	2509
Free float (%)	33.9

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Net Sales	900	1,057	1,161
Adj EBITDA	200	259	328
PAT	127	173	199
EPS (INR)	20.6	28.1	32.3
Gr. (%)	-23.9	36.4	14.8
BV/Sh (INR)	59.3	69.1	80.4
RoE (%)	34.8	40.7	40.1
RoCE (%)	35.4	42.6	42.2
P/E (x)	7.9	5.8	5.1
P/BV (x)	2.8	2.4	2.0
EV/EBITDA (x)	4.3	3.5	2.8

CMP: INR163

TP: INR217(+33%)

Buy

e-auction premium breaches 100% after 12 quarters

Strong coal demand reflected in higher e-auction premium

- COAL posted a strong sequential rebound in margin in 3QFY22, although it missed our estimate on higher than expected RM costs and contractual expenses.
- We expect profitability to recover further in 4QFY22, led by strong e-auction premiums, which breached the 100% mark after 12 quarters in Jan-Feb'21.
- We raise our FY22E/FY23E adjusted EBITDA by 4%/15%, led by higher e-auction premium and increase our TP to INR217 (from INR200 earlier), valuing COAL at 4x FY23E EV/EBITDA. The company is a key beneficiary of the ongoing supply shortage in the global coal market, which is impacting importers in India.

Operating profit jumps on higher offtake

- **Revenue** rose 20% YoY and 22% QoQ to INR284b, in line with our estimate of INR280b.
- **Adjusted EBITDA** (excluding OBR) grew 26% YoY and 84% QoQ to INR73.9b (below our estimate of INR95.5b). The jump in EBITDA was on the back of volume growth, led by a 17% YoY increase in FSA offtake.
- **Cash costs** (excluding OBR) rose 4% YoY to INR1,071/t, higher than our estimate of INR941/t. Cash costs were impacted by higher inventory release and cost of raw material. Employee cost was marginally below our estimate, although higher on a YoY basis.
- **PAT** grew 48% YoY and 55% QoQ to INR45.6 (below our estimate of INR60b). The miss at the PAT level narrowed due to lower tax.
- **Dispatches** in 3QFY22 rose 13% YoY to 174mt, in line with our provisional estimate. Production grew 4% YoY to 164mt, which compares to our provisional estimate of 157mt.
- **FSA** volumes rose 17% YoY to 145mt (est. 142mt). FSA realization was broadly unchanged YoY and QoQ at INR1,370/t (in line).
- **e-auction** volumes and realization/t were in line with our estimate at 26mt and INR1,947, respectively.

Other highlights

- Wage negotiations have entered the third round, and the management expects the same to be completed before FY23-end.
- COAL reiterated that a price hike is imminent to offset rising costs and the large planned capex, failing which it will have to dip into its cash balance or even raise debt.
- COAL needs to raise the FSA coal price by 4.1%, from 3QFY22 levels, to offset a 10% increase in the wage bill, without any natural attrition. Considering the natural net attrition rate of 12,000, we estimate an FSA price hike of 4% to cover the incremental wage bill on expanded volumes of 707mt

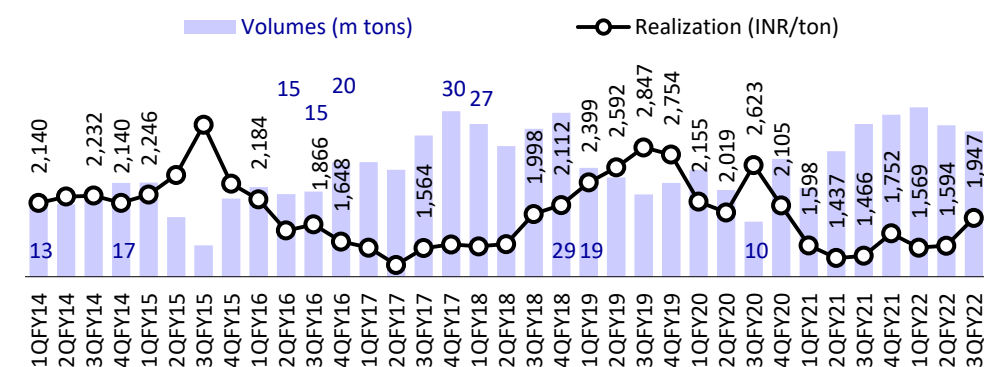
- COAL has a gross cash balance of INR300b (as of 31st Jan'22) and a gross debt of INR35b.
- The management continued its thrust on improving productivity and on closing mines that are loss-making and where there is no option but to raise production to make the same viable. Production at 13 mines have been suspended in the last two years. The incremental manpower requirement for enhancing coal output is being addressed through the MDO route.
- Capex is pegged at INR155-160b in FY22, of which COAL has so far spent INR100b. Capex is likely to be ~INR170b in FY23 and will be spent on various projects, including fist-mile connectivity, land acquisition, doubling of existing railway lines to improve dispatches, mining equipment, etc.

Consolidated quarterly performance

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Sales	184.9	211.5	236.9	267.0	252.8	232.9	284.3	287.1	900.3	1,057.1	280.0	2
Change YoY (%)	-25.9	3.8	2.1	-3.1	36.8	10.1	20.0	7.5	-6.3	17.4	18.2	
Change QoQ (%)	-32.9	14.4	12.0	12.7	-5.3	-7.9	22.1	1.0	NA	NA	20.2	
Adj. EBITDA	28.0	34.0	58.5	79.7	45.9	40.1	73.9	99.3	200.2	259.2	95.5	(23)
Change YoY (%)	-62.7	-20.0	-5.4	-16.2	63.9	18.0	26.2	24.6	-27.1	29.4	63.3	
Change QoQ (%)	-70.6	21.5	72.1	36.3	-42.5	-12.5	84.1	34.5	NA	NA	138.1	
EBITDA/t	232.4	253.8	379.4	482.7	285.9	272.1	425.0	573.1	1,348.4	1,556.0	553.6	
Depreciation	8.5	8.5	9.2	10.9	10.4	9.3	10.4	10.7	37.1	40.8	10.1	3
OBR	-2.5	-5.8	6.9	15.9	-2.6	0.7	5.6	12.5	14.5	16.2	10.0	
Interest	1.8	1.5	1.6	1.6	1.5	1.4	1.3	2.3	6.4	6.5	1.6	
Other Income	7.9	10.8	6.5	12.7	6.8	7.8	6.5	15.0	37.9	36.1	6.2	6
EO Inc./(Exp.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	28.0	40.6	47.4	64.1	43.4	36.5	63.1	88.8	180.1	231.7	80.0	(21)
Tax	7.2	11.1	16.6	18.2	11.6	7.1	17.5	22.2	53.1	58.4	20.0	(13)
Tax Rate (%)	25.8	27.3	35.0	28.4	26.8	19.5	27.7	25.0	29.5	25.2	25.0	
Reported PAT	20.8	29.5	30.8	45.9	31.8	29.4	45.6	66.6	127.1	173.3	60.0	(24)
Adjusted PAT	20.8	29.5	30.8	45.9	31.8	29.4	45.6	66.6	127.1	173.3	60.0	(24)
Change YoY (%)	-55.1	-16.3	-21.3	-0.7	52.8	-0.4	47.9	45.0	-23.9	36.4	94.7	
Change QoQ (%)	-55.1	42.0	4.5	48.9	-30.9	-7.5	55.2	46.0	NA	NA	104.3	

Exhibit 1: e-auction premium surges due to rising demand in the non-regulated sector

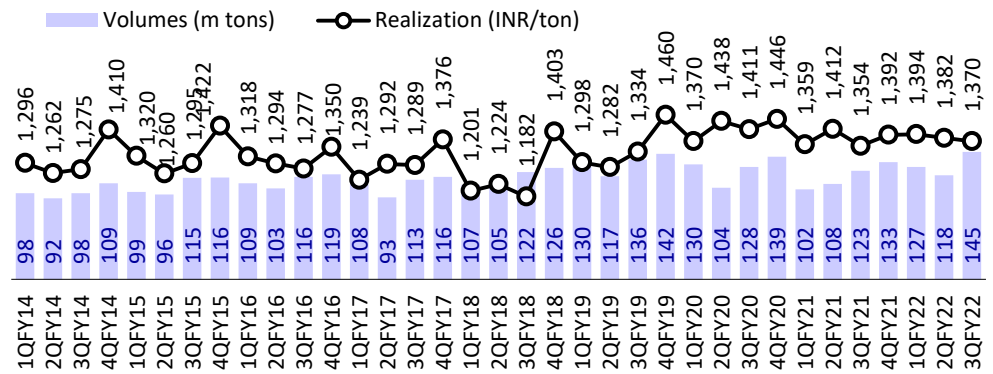
Due to strong international prices, COAL saw increasing demand from the Power sector, putting pressure on e-auction volumes



Source: MOFSL, Company

This is reflected in flattish ASP for the FSA sector, with higher allocations to the Power sector...

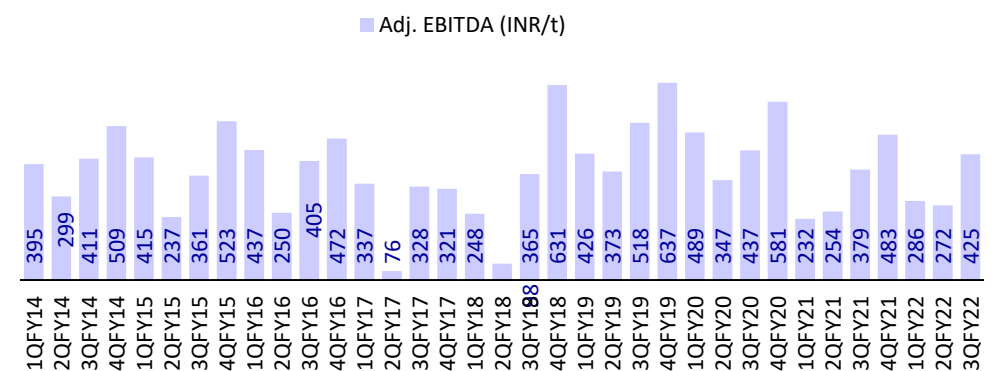
Exhibit 2: FSA ASP has been flat QoQ, indicating higher offtake by the Power sector



Source: MOFSL, Company

...leading to a drop in EBITDA/t...

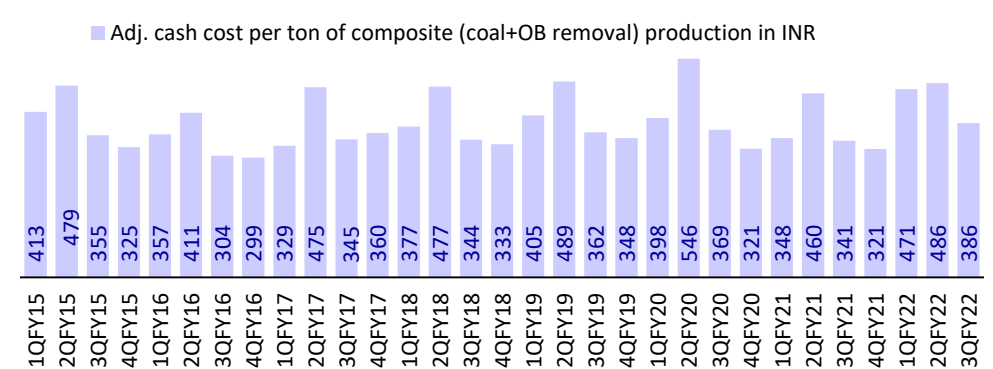
Exhibit 3: Adjusted EBITDA/t remained flat on a QoQ basis



Source: Company, MOFSL

...despite costs being under control

Exhibit 4: Cash cost under control, to trend down in 2HFY22 on higher volumes



Source: CEA, MOFSL



Highlights from the management interaction

- Capex is pegged at INR155-160b in FY22, of which COAL has so far spent INR100b. Capex is likely to be ~INR170b in FY23. A large part of the capex will be towards improving coal evacuation, with the balance towards other projects, which include investments in JVs (fertilizer, aluminum, etc.) and diversification (solar power).
- e-auction premiums for Jan-Feb'22 stood over 100% of FSA prices and will reflect in its 1QFY23 earnings. The management is targeting e-auction volumes of 110-115mt in FY22.

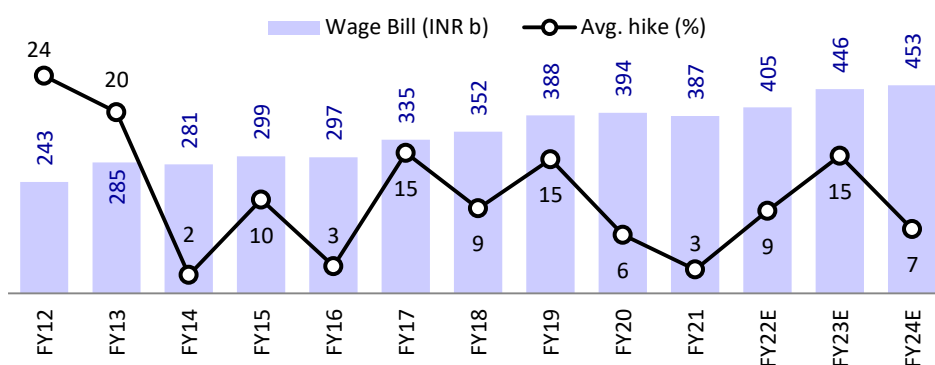
- Its dispatch/production guidance for FY22 has been maintained at 660-670mt/630mt, with some (~10mt) upside risk to production. It expects dispatches of ~700mt in FY23, which is in line with our estimate.
- The management is in discussions with various stakeholders with respect to an imminent price hike, given the severe cost push. If the same is not effected soon, it will have to dip into its cash pool to fund ongoing capex.
- COAL is in discussion with labor unions for a wage revision and expects the same to be completed before FY23-end. It is currently making a monthly provision of INR1b since Jul'21 towards a wage hike. We believe the provision is inadequate. It has also booked a non-cash provision of INR8bn for post-retirement medical benefits.
- The management expects to reduce its receivables position before Mar'21. Receivables stood at INR130b as of 31st Jan'22.
- COAL declared a dividend of INR5/share on top of an INR9/share already declared in Dec'21.

COAL will need a 5% FSA price hike to offset a 10% wage hike

- We estimate the total wage bill at INR405b in FY22, which is likely to increase to INR445b. We have built in a normal net attrition of ~13k employees and a 15% wage hike post negotiations. This hike can come in 2HFY23 after the wage negotiations are over. This will translate in a net increase of ~10% in the wage bill. EBITDA will be impacted by INR40b due to this hike. Assuming average e-auction premiums for FY23 remain at FY22 levels, we estimate COAL will need at least a 5% hike in the FSA price to offset a wage hike. However, the hike needed may be higher, if input cost inflation continues through FY23.

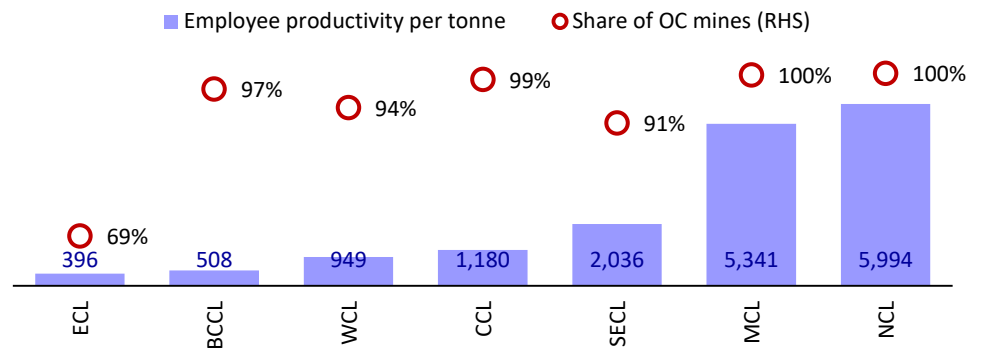
We have factored in higher wage costs in our assumptions

Exhibit 5: Our wage assumption should adequately cover the current wage hike proposal



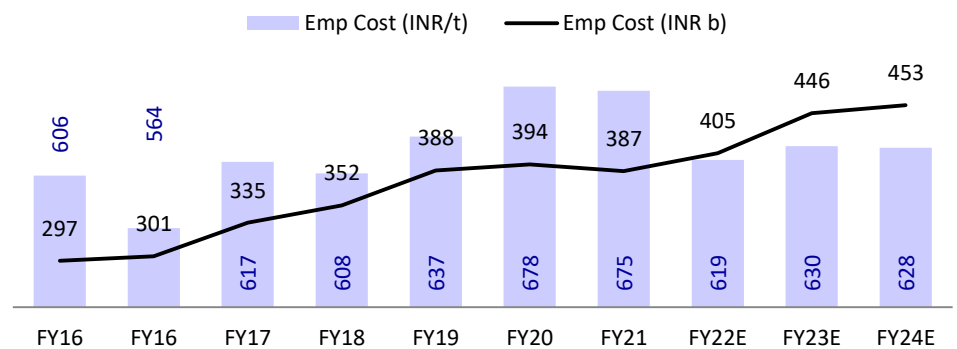
Source: MOFSL

- COAL currently employs 251k personnel, but expects to reduce the same to ~100k over the next 10 years, largely through the process of natural separation. We expect production to continue to ramp up beyond 1,000mt over the next four years and sustain at those levels. This could substantially lower manpower cost per tonne below current levels.

Exhibit 6: COAL likely to focus on closing its loss-making UG mines to improve EBITDA

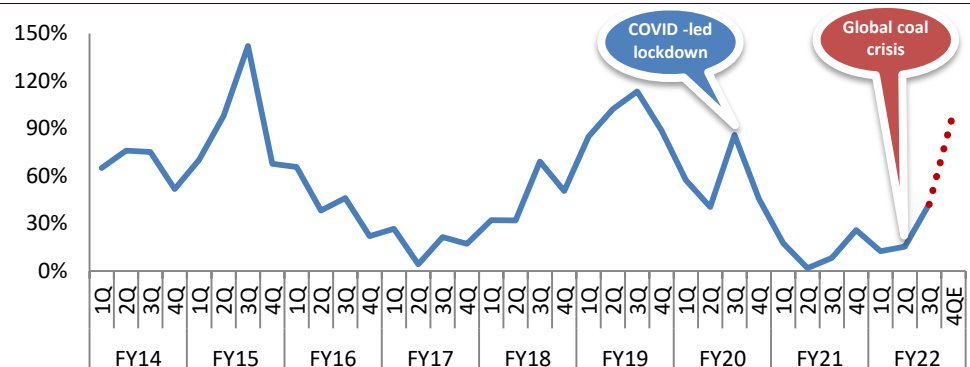
Source: Industry, MOFSL

- Although the absolute wage bill of COAL rose by 4.5% CAGR over FY16-22E, employee cost/t of coal has grown at only 0.3% CAGR. This was led by higher tonnage which COAL has been able to deliver, while consistently reducing manpower through natural attrition.

Exhibit 7: Absolute employee cost increases, but is stable on a per tonne basis

Source: Industry, MOFSL

- e-auction premium is back to 100%: After a hiatus of 12 quarters, COAL has reported an e-auction premium of over 100% in Jan-Feb'21. This marks a return to pre-pandemic pricing levels. Demand for base load power is likely to remain strong, given the strong economic recovery and until the entire ecosystem of renewables, especially efficient and economical power storage devices, evolves. Until then, renewables will continue to replace coal as the key source of energy only in limited places.

Exhibit 8: e-auction premium improves after 12 quarters of hiatus

Source: Industry, MOFSL

Exhibit 9: Adjusted P&L

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	9,95,469	9,60,803	9,00,260	10,57,144	11,61,379	11,72,599
Power FSA	6,40,826	6,24,312	5,84,460	6,75,596	7,39,307	7,90,359
Non-Power FSA	1,24,788	1,42,822	1,19,007	1,25,122	1,42,569	1,42,319
e-auction/MoU	2,29,856	1,93,669	1,96,793	2,56,426	2,79,503	2,39,921
Sales (mt)	608	581	574	655	707	722
YoY (%)	4.9	-4.5	-1.3	14.2	8.0	2.0
Power FSA	458	426	407	468	505	530
Share (%)	75	73	71	71	71	73
Non-Power FSA	67	75	65	65	70	74
e-auction/MoU	83	80	102	122	132	118
Revenue/t	1,637	1,653	1,569	1,614	1,642	1,625
YoY (%)	10.6	1.0	-5.1	2.8	1.7	-1.0
Power FSA	1,399	1,465	1,438	1,445	1,464	1,491
Non-Power FSA	1,851	1,904	1,831	1,925	2,031	1,931
e-auction/MoU	2,777	2,418	1,929	2,094	2,114	2,040
Cost of Mining (excl. OBR)	6,94,986	6,86,176	7,00,022	7,97,968	8,33,437	8,62,505
CoP/t	1,143	1,181	1,220	1,218	1,178	1,195
YoY (%)	1.1	3.3	3.4	-0.2	-3.3	1.5
Labor and social OH	644	688	682	627	638	636
Contract	220	239	279	284	307	291
R&M	158	129	121	187	112	140
Others	120	125	138	120	122	128
Adjusted EBITDA	3,00,483	2,74,627	2,00,238	2,59,176	3,27,942	3,10,094
EBITDA/t	494	473	349	396	464	430

Valuation and view

- Demand for coal is likely to grow globally over the next few years as economies, especially in the West, scout for alternatives to Russian gas supplies.
- This will keep demand for coal, and consequently international prices, elevated, with intermittent periods of crests and troughs.
- Until an economical and sustainable ecosystem for storage of renewable power is developed, India will continue to depend on coal as a primary source of energy. This is also reflected in the Centre's commitment to net neutrality by CY70. Despite the development of ultra large, efficient, and economical storage devices, factories that depend on continuous power will rely on thermal power, at least for the next decade, till the new technology is proven to be a reliable and viable alternative to coal.
- COAL is in a comfortable position to meet India's growing demand, given its vast resources and number of projects in the development stage that are likely to start delivering in the next two-to-three years.
- As the stock trades attractively at 2.8x FY23E EV/EBITDA, we maintain our **Buy** rating.

Exhibit 10: Valuation remains attractive

	FY19	FY20	FY21	FY22E	FY23E
Adjusted EBITDA	3,00,483	2,74,627	2,00,238	2,59,176	3,27,942
Target EV/EBITDA (x)		4.0	4.0	4.0	4.0
Target EV		10,98,509	8,00,952	10,36,705	13,11,768
Net debt (cash)	-3,16,302	-2,30,793	-1,50,676	-1,08,108	-90,208
Equity value		13,29,302	9,51,628	11,44,813	14,01,976
TP (INR/share)					217

Source: Company, MOFSL

Exhibit 11: Key assumptions and changes to our estimates

	UoM	FY22E			FY23E			FY24E
		New	Old	Change	New	Old	Change	New
Production	mt	629	629	0%	707	707	0%	722
Dispatch	mt							
- FSA	mt	533	550	-3%	575	594	-3%	604
- e-auction	mt	108	92	17%	118	100	19%	103
- Others	mt	15	13	9%	14	14	0%	14
Total dispatch	Mt	655	655	0%	707	707	0%	722
ASP								
- Blended	INR/t	1,489	1,419	5%	1,511	1,426	6%	1,494
- FSA	INR/t	1,379	1,345	3%	1,402	1,351	4%	1,414
- e-auction	INR/t	1,757	1,650	6%	1,900	1,700	12%	1,800
- e-auction premium	INR/t	27%	23%	474bp	35%	26%	964bp	27%
Revenue	INR b	975	929	5%	1,069	1,009	6%	1,078
Adjusted EBITDA	INR b	259	249	4%	328	284	15%	310
PAT	INR b	173	156	11%	199	167	19%	191

Source: MOFSL

Financials and valuations

Income Statement							(INR b)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	780	784	859	995	961	900	1,057	1,161	1,173
Change (%)	0.0	0.5	9.6	15.9	-3.5	-6.3	17.4	9.9	1.0
Accretion in Stock	-14	-12	17	9	-10	-21	23	-15	9
RM cost	70	70	68	73	71	76	85	77	74
Power and Fuel	25	26	25	24	25	25	28	31	33
CSR	11	5	5	4	6	4	6	6	6
Employee cost	301	335	352	388	394	387	405	446	453
Repairs	12	13	14	14	14	14	14	17	18
Contractual Expenses	111	123	128	134	139	160	186	217	210
Miscellaneous Expenses	48	74	46	49	48	54	51	55	59
OBR provisioning	28	27	34	51	55	15	16	42	30
Total Operating Expenses	593	660	689	746	742	715	814	875	893
EBITDA	187	124	170	250	219	186	243	286	280
As a percentage of Net Sales	24.0	15.8	19.7	25.1	22.8	20.6	23.0	24.7	23.9
Adjusted EBITDA (excl. OBR)	215	151	203	300	275	200	259	328	310
Adj. EBITDA/t	403	277	350	494	473	349	396	464	430
Depreciation	28	29	31	35	35	37	41	43	45
Interest	4	4	4	3	5	6	7	7	7
Other Income	59	55	47	59	61	38	36	29	27
Extra Ordinary income	0	0	74	0	0	0	0	0	0
PBT	215	146	107	271	241	180	232	266	255
Tax	72	52	37	97	74	53	58	67	64
Rate (%)	33.4	35.4	34.6	35.6	30.6	29.5	25.2	25.2	25.2
Reported PAT	143	94	70	175	167	127	173	199	191
Change (%)	0.1	-34.1	-25.5	148.8	-4.4	-23.9	36.4	14.8	-4.2
Adjusted PAT	143	94	119	175	167	127	173	199	191

Balance Sheet							(INR b)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	63	62	62	62	62	62	62	62	62
Reserves	285	183	136	203	260	304	364	434	501
Net Worth	348	245	198	265	322	365	426	495	562
Minority Interest	1	3	4	4	4	4	4	4	4
Loans	12	30	15	22	64	59	59	59	59
Deferred tax Liability	-20	-27	-54	-43	-33	-41	-41	-41	-41
Capital Employed	341	251	164	248	357	388	448	518	585
Gross Fixed Assets	234	277	326	402	474	565	715	835	975
Less: Depreciation	27	56	85	116	150	187	228	272	317
Net Fixed Assets	207	221	241	286	323	378	487	564	659
CWIP	59	103	138	137	128	151	161	211	241
Investments	0	0	3	5	9	23	28	33	38
Current Assets	841	809	839	857	1,007	1,025	984	971	939
Inventory	76	89	64	56	66	89	87	80	80
Debtors	114	107	87	55	144	196	174	159	161
Other Current Assets	241	285	351	392	490	524	550	577	606
Loans and Advances	1	0	10	16	11	6	6	6	6
Cash	409	327	326	338	295	209	167	149	86
Current Liabilities	767	882	1,058	1,037	1,110	1,189	1,212	1,261	1,292
Payables	33	39	45	68	101	76	82	90	91
Other current liabilities	734	843	1,012	968	1,009	1,113	1,129	1,171	1,201
Net Curr. Assets	74	-73	-218	-179	-104	-164	-228	-290	-353
Application of Funds	341	251	164	248	357	388	448	518	585

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic									
Adjusted EPS	22.6	15.2	19.2	28.3	27.1	20.6	28.1	32.3	30.9
Cash EPS	31.5	24.2	29.5	42.2	41.7	29.0	37.4	46.0	43.2
Book Value	55.1	39.5	32.0	42.9	52.2	59.3	69.1	80.4	91.2
DPS	27.4	19.9	16.5	13.1	12.0	16.0	18.3	21.0	20.1
Payout (incl. Div. Tax.)	145.5	160.3	103.3	55.5	53.3	77.6	65.0	65.0	65.0
Valuation (x)									
P/E	12.9	19.3	14.8	8.4	4.9	7.9	5.8	5.1	5.3
Cash P/E	9.3	12.1	9.6	5.6	3.2	5.6	4.4	3.5	3.8
P/BV	5.3	7.4	8.9	5.5	2.5	2.8	2.4	2.0	1.8
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.1	4.3	3.5	2.8	3.2
Dividend Yield (%)	9.4	6.8	5.8	5.5	9.1	9.8	11.2	12.9	12.3
EV/t of Reserves	66.6	69.9	66.6	52.7	26.8	39.3	41.2	42.1	45.0
Profitability Ratios (%)									
Debtor (Days)	53.6	50.0	36.9	20.2	54.7	79.6	60.0	50.0	50.0
Inventory (Days)	35.4	41.7	27.4	20.5	25.1	36.3	30.0	25.0	25.0
Payables (Days)	15.4	18.2	19.2	25.0	38.4	31.0	28.4	28.4	28.4
Asset turnover(x)	2.3	3.1	5.2	4.0	2.7	2.3	2.4	2.2	2.0
Profitability Ratios (%)									
RoE	41.0	38.4	35.4	66.0	51.9	34.8	40.7	40.1	33.9
RoCE	39.9	32.7	58.4	85.7	56.4	35.4	42.6	42.2	35.5
RoIC	-60.6	-40.0	-37.7	-51.7	-83.4	-295.1	313	167	102
Leverage Ratio									
Net Debt/Equity ratio (x)	-1.1	-1.2	-1.6	-1.2	-0.7	-0.4	-0.3	-0.2	0.0

Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Adj. EBITDA*	215	151	203	300	275	200	259	328	310
Non-cash exp./ (income)	22	37	-55	11	10	19	9	8	8
(Inc.)/Dec. in WC	-27	60	138	-49	-123	-57	31	30	-1
Taxes paid	-79	-89	-74	-95	-119	-57	-58	-67	-64
CF from Operations	132	158	213	167	41	106	240	299	252
Capex	-58	-87	-85	-73	-56	-110	-160	-170	-170
Free Cash Flow	74	72	127	94	-15	-4	80	129	82
(Pur.)/Sale of Investments	0	0	-3	-1	-5	-8	-5	-5	-5
Interest/dividend	50	35	24	31	35	24	27	21	19
Other investing activity	-83	-12	-13	-10	11	-14	-26	-27	-29
CF from Investments	-91	-65	-77	-54	-15	-107	-164	-181	-185
Equity raised/(repaid)	0	-46	0	0	0	0	0	0	0
Debt raised/(repaid)	10	18	-15	7	23	-6	0	0	0
Interest paid	0	0	0	0	-1	-2	-7	-7	-7
Dividend (incl. tax)	-208	-151	-123	-112	-97	-77	-113	-129	-124
Other financing	3	3	3	4	5	0	0	0	0
CF from Fin. Activity	-196	-176	-136	-102	-70	-85	-119	-136	-130
Inc./Dec. in Cash	-155	-82	-1	12	-43	-86	-43	-18	-63
Add: Beginning Balance	564	409	327	326	338	295	209	167	149
Closing Balance	409	327	326	338	295	209	167	149	86

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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